MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2022/2023

DFF5214 – FUNDAMENTALS OF FINANCIAL STATEMENT ANALYSIS

(All Sections / Groups)

12th July 2023
9.00 a.m. to 11.00 a.m.
(2 Hours)

INSTRUCTION TO STUDENT

1. This Question paper consists of 9 pages with **THREE (3)** Questions only. (Including Front Page and Consolidated Financial Statements)

2. Answer **ALL** questions.

3. Write your answers in the Answer Booklet provided.

QUESTION 1 (50 marks)

Kossan Rubber Industries Berhad, is a Kuala Lumpur based public limited company engaged in manufacture, sale, and export of rubber poducts. It was founded by Tan Sri Dato' Lim Kuang Sia in 1979. KOSSAN has to-date an annual gloves production capacity of 32 billion pieces and a compounding capacity of technical rubber products exceeding 10,000 metric tonne per annum.

Managing Director's Review

OVERVIEW
2021 has been an exceptional year for the Group. For the financial year ended 31 December 2021 ("FY2021"), I am pleased to report that Kossan Rubber Industries Bhd ("KOSSAN" or "Group") has delivered its best-ever performance with revenues and profits at record levels. The Group's profit before tax ("PBT") grew to a record RM3.75 billion on revenue of RM6.63 billion with shareholders' funds increasing to RM4.03 billion in FY2021.

MOVING FORWARD
Industry Landscape
Two years after the World Health Organisation ("WHO") declared a pandemic, COVID-19 continues to impact the world. The International Monetary Fund ("IMF") in its January 2022 World Economic Outlook ("WEO") report projects global growth to moderate from 5.9 in 2021 to 4.4 percent in 2022. Global growth is expected to slow to 3.8 percent in 2023, according to the IMF.

As a result of the pandemic, the demand for protective gloves increased significantly. In its July 2021 statement, the Malaysian Rubber Glove Manufacturers Association ("MARGMA") projected global glove demand to be 420 billion pieces for 2021 (2020: 360 billion pieces). In the near term, the glove industry is expected to be challenging with the tapering of glove demand and ASP from the heights of the pandemic as a result of the rollout of mass vaccinations globally. Even with the COVID-19 variants, the percentage of COVID-19 cases categorised as severe has declined compared to the earlier stages of the pandemic. As such, the exceptionally high ASP which were due to the shortage and panic-buying of gloves during the onset of the pandemic, have decreased rapidly leading to inventory adjustments and delayed customer orders. In addition, the glove sector is seeing increased competition and incoming capacity from existing manufacturers and new entrants, domestically as well as overseas. The global logistics disruptions and container shipping shortages have also adversely affected glove shipments and deliveries. Furthermore, the industry is subject to increases in manpower and energy costs amidst an inflationary environment. Based on these reasons, the glove sector is expected to face headwinds in the current year 2022.

THE ROLE OF TECHNOLOGY IN A RAPIDLY EVOLVING INDUSTRY
The manufacturing sector has evolved rapidly in recent years. With the advent of Industry

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4.0, cutting-edge technology will play a key role in the manufacturing sector. The glove industry has seen progress from being labour intensive in the past to the adoption of automation and robotics in today's highervalue manufacturing plants. The Internet of Things ("IoT"), Big Data Analytics, Artificial Intelligence ("AI") and Industrial Automation will be central to this development. To this end, KOSSAN has embraced automation and robotics in its manufacturing process which has over time reduced the reliance on manual labour. Adoption of value-added processes such as digitalisation and integrated manufacturing technologies will allow for a seamless production process with reduced manual input, leading to enhanced quality and efficiency and paving the way for higher productivity and the development of a skilled and innovative workforce.

LONG-TERM SUSTAINABLE GROWTH

As we move forward, the Group will accelerate its transformation plans where changes have been implemented throughout the organisation which will allow the Group to be resilient even in the face of rising costs and heightened competition. KOSSAN's strategy is to drive long-term sustainable growth. Capacity expansions in Selangor over the next two years are projected to increase capacity by 5 billion pieces of gloves through the construction of two new plants. The first plant with an installed capacity of 2 billion pieces is expected to be completed in the 1st half of 2023 while the second plant with an installed capacity of 3 billion pieces is expected to be completed in the 2nd half of 2023.

As part of its ongoing transformation, the Group has accelerated investments into digitalisation and automation in its plants to increase productivity and efficiency and to prepare the Group for its next phase of growth. In this regards, KOSSAN has invested in a new Enterprise Resource Planning ("ERP") system which will be implemented across the Group progressively. ERP systems integrate financials, supply chain, operations, commerce, reporting, manufacturing, and human resource activities in one seamless digital platform leading to better cost management, improved inventory management, and overall improved productivity. In addition, the implementation of automation and robotics in our plants allow us to improve quality and consistency. Automation streamlines the production process, minimising costly human errors, wastage and rejects whilst ensuring product quality. Automation not only reduces over-reliance on manual labour, it also resolves problems of labour shortages and rising wages in the long run. With the implementation of automated packaging, the number of workers per million pieces of gloves produced per month will further decrease in the future. As we move forward, we remain focused on harnessing technology to complement our manufacturing excellence.

Statements of Profit or Loss and Other Comprehensive Income AND Statements of Financial Position are attached on the pages 8 - 10.

a) Based on the attached Group Statements of Profit or Loss and Other Comprehensive Income AND Statements of Financial Position, compute the changes in revenue, profit from operating activities, profit before taxation, profit for the year and earnings per ordinary share for the financial period 2021 and 2020. **(15 marks)**

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b) Based on the attached Group Statements of Profit or Loss and Other Comprehensive Income AND Statements of Financial Position, calculate the net trade cycle periods and their components for financial periods 2021 and 2020. **(20 marks)**

a) Based on Chairman's Review and Management analysis, you are required to support your answer in questions (a) and (b) to determine its significance to stock valuation. **(15 marks)**

QUESTION 2 (25 marks)

a) Compute the following transaction and analyse its impact on company net profit.

i) Company changed the lifespan of fixed asset with value of RM100,000 from 10 years to 5 years for the calculation of yearly depreciation expense.

ii) Company increased the provision for bad debt of account receivable amounting RM1,000,000 from 5% to 10% for the calculation of yearly provision for bad debt expense.

iii) Company provided contingent liabilities of RM1,500,000 for the warranty issue.

(9 marks)

b) Discuss the date and the amount of revenue/sale should be recognized in the following independent circumstances with financial year ended at 31st December.

i) Goods at selling price of RM50,000 were sent out on 14-day 'sale or return basis' on 20 December 2022 which were not returned by financial year ended at 31st December. **(4 marks)**

ii) On 1 Dec 2021, the company received RM800 cash from the sale of a television set whereby the customer had agreed to pay 40% down payment. The balance RM 1,200 will be paid in 6 monthly installments beginning at 1st January 2022 when television set delivered to the customer. **(4 marks)**

iii) On 1 November 2021, Fragrance Wonder entered into a contract to deliver 100,000 sachets of perfume to Pleasure Hotel. The hotel paid RM40,000 on signing the contract and the balance of RM60,000 to be paid on delivery. However, Fragrance wonder would only be able to deliver the perfume in February 2022. **(4 marks)**

iv) Fragrance Zonder had delivered 50,000 sachets of perfume in May 2021. The sales value was RM60,000 but Ruby Hotel had paid only RM25,000 and promised to pay the balance in April 2022. **(4 marks)**

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QUESTION 3 (25 marks)

A machine costing RM600,000, which can be used for five years with no salvage value left, can generate yearly income before interest and tax of RM150,000

Required:

a) Compute the yearly depreciation and annual rate of return for five years by using the beginning of year book value as the base (Corporate income tax rate is 20%) under

i) Straight line **(10 marks)**
ii) Sum of the years' digits **(10 marks)**

b) Comment the above result based on the management discretion **(5 marks)**

End of Question

Kossan Rubber Industries Berhad

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the Year Ended 31 December 2021

	Note	Group		Company	
		2021 RM'000	2020 RM'000	2021 RM'000	2020 RM'000
Revenue	20	6,631,463	3,638,472	2,181,411	416,081
Other (expense)/income		14,981	78,826	(4,451)	872
Changes in inventories of finished goods and work-in-progress		(39,358)	85,667	-	-
Raw materials and consumables used		(1,945,614)	(1,509,695)	-	-
Goods purchased for resale		(45,113)	(56,860)	-	-
Staff costs		(419,667)	(421,249)	(51,317)	(35,797)
Depreciation of property, plant and equipment		(113,975)	(109,144)	(924)	(890)
Net gain on impairment of financial instruments		-	171	-	-
Other operating expenses		(360,846)	(259,473)	(4,733)	(5,601)
Results from operating activities		3,721,871	1,446,715	2,119,986	374,665
Finance costs	21	(8,276)	(14,963)	(20)	(12)
Finance income		33,721	9,661	9,279	2,869
Share of losses of equity-accounted joint venture, net of tax	9	(4)	(3)	-	-
Profit before tax		3,747,312	1,441,410	2,129,245	377,522
Tax (expense)/credit	23	(890,374)	(349,307)	(4,395)	1,140
Profit for the year	24	2,856,938	1,092,103	2,124,850	378,662

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Statements of Profit or Loss and Other Comprehensive Income
for the Year Ended 31 December 2021
(Cont'd)

	Note	Group 2021 RM'000	Group 2020 RM'000	Company 2021 RM'000	Company 2020 RM'000
Other comprehensive income, net of tax					
Item that may be reclassified subsequently to profit or loss					
Foreign currency translation differences for foreign operations		6,532	2,825	-	-
Other comprehensive income for the year, net of tax		6,532	2,825	-	-
Total comprehensive income for the year		2,863,470	1,094,928	2,124,850	378,662
Profit attributable to:					
Owners of the Company		2,853,602	1,086,670	2,124,850	378,662
Non-controlling interests		3,336	5,433	-	-
Profit for the year		2,856,938	1,092,103	2,124,850	378,662
Total comprehensive income attributable to:					
Owners of the Company		2,858,949	1,089,065	2,124,850	378,662
Non-controlling interests		4,521	5,863	-	-
Total comprehensive income for the year		2,863,470	1,094,928	2,124,850	378,662
Basic earnings per ordinary share (sen)	25	111.82	42.49		
Diluted earnings per ordinary share (sen)	25	111.82	42.49		

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STATEMENTS OF FINANCIAL POSITION

as at 31 December 2021

	Note	Group 2021 RM'000	Group 2020 RM'000	Company 2021 RM'000	Company 2020 RM'000
Assets					
Property, plant and equipment	3	1,373,723	1,273,685	88,238	67,452
Right-of-use assets	4	46,417	49,175	224	311
Investment properties	5	65,588	67,591	19,304	19,690
Goodwill on consolidation	6	4,926	4,926	-	-
Intangible assets	7	1,114	1,155	-	-
Investments in subsidiaries	8	-	-	170,241	166,741
Investment in joint venture	9	1,348	1,352	1,400	1,400
Other investments	10	181	413	106	91
Deferred tax assets	11	1,921	194	-	-
Trade and other receivables	12	-	-	160,802	102,279
Total non-current assets		1,495,218	1,398,491	440,315	357,964
Inventories	13	424,022	439,949	-	-
Contract assets	14	-	120	-	-
Trade and other receivables	12	558,566	616,970	2,577	680
Prepayments		33,016	60,312	408	140
Current tax assets		10,552	10,766	1,711	2,752
Derivative financial assets	19	638	17,860	-	-
Cash and cash equivalents	15	2,557,765	1,089,507	1,089,662	242,564
Total current assets		3,584,559	2,235,484	1,094,358	246,136
Total assets		5,079,777	3,633,975	1,534,673	604,100

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Statements of Financial Position
as at 31 December 2021
(Cont'd)

	Note	Group 2021 RM'000	Group 2020 RM'000	Company 2021 RM'000	Company 2020 RM'000
Equity					
Share capital	16.1	323,885	323,885	323,885	323,885
Translation reserve	16.2	12,890	7,543	-	-
Capital reserve	16.3	939	(17)	-	-
Treasury shares	16.4	(26,764)	(13,797)	(26,764)	(13,797)
Retained earnings		3,721,396	2,067,220	1,204,331	278,907
Equity attributable to owners of the Company		4,032,346	2,384,834	1,501,452	588,995
Non-controlling interests		28,003	28,405	-	-
Total equity		4,060,349	2,413,239	1,501,452	588,995
Liabilities					
Loans and borrowings	17	56,001	107,176	479	204
Lease liabilities		8,737	11,206	-	72
Deferred tax liabilities	11	129,403	117,109	3,609	1,855
Total non-current liabilities		194,141	235,491	4,088	2,131
Loans and borrowings	17	182,399	447,861	493	96
Lease liabilities		4,664	4,435	72	119
Current tax liabilities		316,968	43,763	-	-
Contract liabilities	14	23,466	187,987	-	-
Derivative financial liabilities	19	503	2,747	-	-
Trade and other payables	18	297,287	298,452	28,568	12,759
Total current liabilities		825,287	985,245	29,133	12,974
Total liabilities		1,019,428	1,220,736	33,221	15,105
Total equity and liabilities		5,079,777	3,633,975	1,534,673	604,100

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